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# **Table of Contents,** Continued

# Overview

**Introduction**

Direct Deposit (also known as EFT, Electronic Funds Transfer) of payroll allows employees to have their pay electronically deposited to their savings or checking account(s). The program is a convenient way to pay employees at any Federal Reserve affiliated financial institution worldwide. Direct deposit is the primary method of paying Commonwealth employees. All state employees are eligible to participate in the direct deposit program regardless of their frequency of pay and/or salaried or wage status. For example, salaried or wage employees paid monthly, semi-monthly, biweekly, and weekly may all participate in the program.

New hires should be automatically enrolled in direct deposit unless there are mitigating circumstances that would prevent the employee from participating. In this case the employee may choose to opt-out of the program.

**Benefits to Employees and Employers**

Direct deposit benefits both the employee and the employer. Benefits to the employee include:

- No lost or stolen checks.
- No unclaimed or uncashed checks.
- Eliminates long banking lines and wasted time cashing checks.
- Assurance that payments will be automatically deposited while on vacation, sick leave, or out of town.

Financial institution service fees vary but generally direct deposit fees are lower than the cost of paper transactions. Direct Deposit reduces operating costs and improves productivity. Other benefits to the employer include:

- Reduced processing time and requirements for check reconciliation.
- Enhanced cash management by increasing predictability of cash flows.
- Elimination of forged, stolen, or lost checks.

# Overview, Continued

**Promoting Direct Deposit**

To increase participation, agencies are encouraged to promote the direct deposit program. Agencies with low participation rates are reported in Comptroller's Quarterly Report. To obtain promotional materials and other pertinent information, see www.directdeposit.org or call NACHA @1-800-487-9180.

**Rules Affecting Direct Deposit**

State and Federal authorities share regulatory responsibility over Direct Deposit. Title IX of the Consumer Credit Protection Act and the Electronic Fund Transfers Act outline the basic requirements for Electronic Funds Transfers (EFT's) including direct deposit. The Federal Reserve Board's Regulation E explains and implements these laws.

**Central Direct Deposit Administration**

Direct deposit transactions are processed through the Automated Clearing House (ACH). DOA administers the program for agencies centrally by:

- Serving as the main contact for agencies using direct deposit and assisting in immediate problem resolution.
- Collecting and verifying banking information submitted by agencies.
- Creating transmission files containing banking information for each direct deposit participant.
- Processing Notifications of Change (employee account changes).
- Correcting errors and ACH Returns.

**Agency Responsibilities**

Agencies play a very important role in the initial employee direct deposit set-up process. Accurate direct deposit set-up is critical to the successful transfer of funds. Agencies:

- Collect employee banking information on the direct deposit enrollment form.
- Verify banking information with the selected financial institutions.
- Establish bank account information on H0BB1 and deductions on H0ZDC.
- Ensure that the link between the bank and bank account information on H0BB1 and the direct deposit payroll deduction H0ZDC are correct.
- Maintain copies of employee direct deposit enrollment applications.

# Direct Deposit Administration

**Operational Participants**

As shown in the following illustration, five participants are involved in the administration of the direct deposit process. Each plays an important role in completing the process successfully.
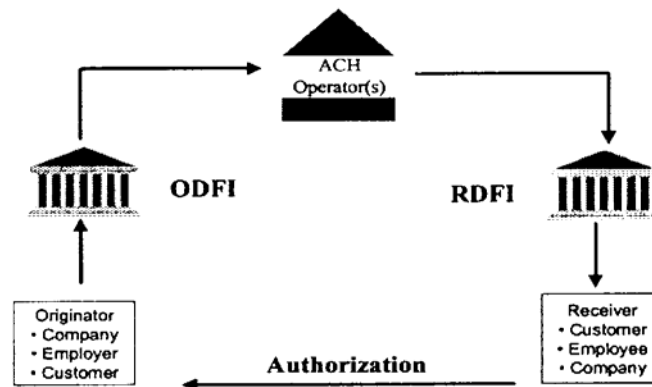


**Originator Responsibilities**

In the Commonwealth of Virginia, originator responsibilities are divided as follows:

| Responsible Party | Function |
|---|---|
| Agency | Collects and verifies banking information. |
| | Sets-up information in CIPPS. |
| | Maintains copy of direct deposit applications. |
| Department of Accounts | Collects and verifies bank information submitted by agencies. |
| | Main contact for agencies using direct deposit. |
| | Assists in immediate problem resolution and correction of errors. |
| | Creates and transfers transmission files containing banking information for each direct deposit participant. |
| Department of Treasury | Contracts with the originating bank. |
| | Resolves float and timing issues. |

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# Direct Deposit Administration, Continued

**ODFI**
Suntrust Bank is currently under contract by the Commonwealth as the Originating Depository Financial Institution. DOA sends payment information electronically to the bank where the data file is warehoused and subsequently forwarded to the ACH operator two days before the effective payment date.

**ACH Operator**
The Federal Reserve Bank is the state's designated ACH Operator. The Federal Reserve is the central clearing facility that sorts all transactions by bank and releases payments no later than the opening of the business day that funds are scheduled to be available. The Federal Reserve sends the electronic transmission to the RDFI for final credit to employee accounts. If all information sent to the RDFI is correct, no further action is taken. If the information is incorrect, Notifications of Change and ACH Returns are sent back to the ODFI.

**RDFI**
Receiving Depository Financial Institutions are employees' financial institutions that receive ACH entries for final distribution to accounts designated by their customer employees.

**Employee/ Receiver**
Employee/receivers are the payees who authorize their paychecks to be direct deposited to their financial institution and chosen bank account. The employee is responsible for notifying the payroll office of any changes in bank account information.

**Forms**
Employee Direct Deposit Authorization Forms are available on-line at the DOA website www.doa.virginia.gov.

**Glossary**

| | |
|---|---|
| **ACH Network** | A funds transfer system governed by the rules of NACHA that provides the inter-bank clearing of electronic entries for participating financial institutions. |
| **ACH Return** | A type of Return in which funds that have already processed through the ACH are returned to the ODFI unposted. |

# Direct Deposit Administration, Continued

**Glossary, continued**

| | |
|---|---|
| **Automated Clearing House (ACH)** | The central clearing facility responsible for the transfer of direct deposit transactions from the State's bank account at the originating financial institution to the employee's financial institution(s) and account. |
| **Authentication** | A process of generating a message that can be used to positively identify the sender of the message and to protect the message from data insertion, modification, deletion or replay. |
| **Available Balance** | Funds available on the current day. |
| **Authorization** | A written agreement with the agency, signed by the employee, allowing payments to process through the ACH network. |
| **Effective date** | The date on which the receiving financial institution(s) credits the employee's account(s) for the amount of the direct deposit. |
| **Exception Entry** | Entries that require special attention. Examples include closed accounts, stop payments, notification of change or dishonored return claims of withdrawal (NOW) accounts at a savings and loan association. |
| **Deletion** | Stops erroneous direct deposit transactions during the period the ODFI still has the transmission file warehoused. The ODFI guarantees the direct deposit transaction will not be sent to the Federal Reserve Bank. |
| **Direct Deposit** | Employee's net pay, or a fixed amount of pay, is transferred, on payday, from a State bank account to the bank account(s) chosen by the employee without the use of paper checks. |
| **Financial Institution (FI)** | A bank, savings bank, federal- or state-chartered credit union. |
| **Fixed Amount of Pay** | Specified dollar amount of the employee's net pay. |
| **Net Pay** | The employee's gross pay less all taxes and mandatory and voluntary payroll deductions. |
| **Notification of Change (NOC)** | A type of Return sent by the RDFI to notify the ODFI that information for payee has become outdated or that the information contained in the pre-notification is erroneous. |
| **Originator** | Any company or entity that initiates entries into the Automated Clearing House (ACH) network. |
| **Overdraft** | Negative balances in employee's account at the end of business day. |

# Direct Deposit Administration, Continued

**Glossary, continued**

| | |
|---|---|
| **Posting** | The process of recording debits and credits. |
| **Pre-notification (pre-note)** | Zero dollar entry that may be sent through the ACH network to alert the receiving financial institution that a live dollar transaction will be forthcoming. Requires verification of the payee's account by RDFI**.** |
| **Receiving Depository Financial Institution (RDFI)** | The employee's financial institution(s) responsible for receiving the employee's direct deposit from the ACH and posting it to the employee's account(s) on payday. |
| **Regulation E** | A regulation promulgated by the Federal Reserve Board in order to ensure consumers of a minimum level of protection in disputes arising from electronic fund transfers. |
| **Rejects** | Any ACH batch file that has not been accepted by an ACH Operator but cannot be processed because of a technical error. |
| **Returns** | Any entry to the ODFI by the RDFI when the direct deposit transaction cannot be processed. Examples include closed account, incorrect account number, etc. |
| **Reversals** | ACH entries or files sent within required deadlines to correct previously originated entries or files. |
| **Routing Number** | Nine digit number (eight digits and a check digit) that identify a specific financial institution. Also referred to as the ABA number. Numbers are assigned by Thompson Financial Publishing and are listed in its publication, "Key to Routing Numbers." |
| **Settlement Date** | Date on which an exchange of funds with respect to an entry is reflected on the books of the Federal Reserve Bank(s). |
| **Trace Number** | A15- character code uniquely identifying each entry within a batch in the ACH file. |
| **Transaction Code** | Two digit code in the ACH record that determines whether the entry is a debit or a credit to a savings or a checking account**.** |
| **Uncollected funds** | Funds that have not cleared the banking system. |
| **Wire Transfer** | Direct deposit manually sent to a financial institution using a system outside the ACH network. |
| **Zero Balance Account (ZBA)** | Checking accounts that have no balance at the close-of-business day. |

# Bank Routing Numbers

**Bank Routing Number**

Routing numbers identify in numeric form the location at which the check, electronic transaction or payment must be presented for payment.  In simple terms it is the bank address in numbers.  The routing number is sometimes called the transit or American Bankers Association (ABA) number.

Routing Numbers use a nine-digit machine readable or magnetic ink character recognition (MCIR) format.  Routing numbers are usually the first group of numbers at the bottom of the check.  The digits are grouped as follows:

| Digit | Purpose |
|---|---|
| 1-4 | Federal Reserve Routing Symbol |
| 5-8 | Identifies the institution |
| 9 | Check symbol |

**Key To Routing Numbers**

Larger banks may have several assigned routing numbers depending on their location.  Routing numbers for credit unions and savings and loans start with the number 2.  Depository banks start with 0 followed by a number from 1 to 9.  Any bank routing number can be added to the CIPPS database, which is accessible only by DOA.  If an agency attempts to enter a bank routing number that is not in the database, it will reject with a fatal error.  This can be easily corrected by calling a direct deposit coordinator in DOA Payroll Production.

**Account Numbers**

Account numbers are the second group of numbers at the bottom of the check.  Account numbers can have as many as 17 digits and are unique to each employee.  Dashes and spaces are not a part of account numbers and should not be entered in CIPPS as part of the direct deposit account information.

**Check Numbers**

Check numbers are the last group of numbers at the bottom of the check.  They are easier to identify because they are also shown on the top right hand corner of the check.  Check numbers should not be included when entering account information in CIPPS.

# Pre-Notes

**Introduction**  Pre-notes are zero-dollar payment amounts sent through the ACH network. Pre-notes allow the RDFI to verify the accuracy of the bank account information in order to prevent direct deposit disbursements to incorrect bank accounts. Pre-notes contain the same information as live direct deposits with the exception of the amount.

CIPPS is designed to generate a pre-note each time a change is made to an employee's bank account information on H0BB1. The CIPPS pre-note counter, pre-note date (on H0BB1), and Utility field on H0ZDC work together to control the schedule for conversion from "pre-note" to "live" direct deposit.

**Bank Information – Initial Set-up and/or Changes**  Agencies must enter the current pay period end date as the Pre-note Date on H0BB1 when bank information is initially set-up or changed. This date will remain in the system until the next payroll certification is requested for the employee's frequency. Upon certification, CIPPS automatically overlays the Pre-note Date entered (i.e., pay period end date) and records the date of the certification request. CIPPS simultaneously changes the 18th position of the Utility field on H0ZDC from a "1" to a "3," activating the 13-day CIPPS pre-note counter.

**CIPPS Pre-Note Counter**  The CIPPS pre-note counter is programmed for a 13-day period. As noted above, the counter is activated only following the first payroll certification for the employee following set-up or change. This means, for any employee payment included in a payroll certification request prior to 13-days from the H0BB1 Pre-note Date, a pre-note transaction will be passed through the ACH to alert the receiving bank of the new incoming direct deposit. This also allows the RDFI to send any NOC before the actual live direct deposit. Employees receive paper checks for pay transactions processed within this 13-day period. Pay transactions processed and certified for employees **after** the 13-day period are direct deposited.

**Note:** A shorter pre-note timeframe cannot be applied to employees paid on a weekly basis unless a pre-note override is requested.

# Pre-Notes, Continued

| | |
|---|---|
| **Pre-Note Overrides** | Requests to pass over the pre-note (sometimes called an "override") must be processed centrally by DOA.  Override requests can be telephoned or emailed (no need for a written request) to DOA Direct Deposit Coordinator.  Agencies must call the bank and verify banking information prior to the request.  Reasons for pre-note overrides follow:<br><br>• Employee transferred from another state agency.<br>• Upon request by the employee.<br>• If the direct deposit deduction is for an employee loan payment.<br><br>**Note:**  DOA automatically overrides the pre-note when DOA performs error corrections pursuant to NOCs or ACH Returns to avoid delaying live direct deposit transactions.  DOA will not contact agencies unless necessary.  Agencies can monitor changes made to their employees' masterfile using CIPPS Report 1006. |

# ACH Processing and Returns

| | |
|---|---|
| **ACH Cycle** | Following agency payroll certification, the direct deposit cycle starts and DOA assumes direct deposit processing responsibilities.  Agency involvement ceases unless DOA must contact the agency pursuant to receipt of a Notification of Change.  A high-level summary of DOA's ACH processing schedule follows: |

| Timeframe | Activities |
|---|---|
| Day 1 - During nightly certification payrun. | All CIPPS data entry files are processed. ACH reports and transmission files are created. |
| Day 2 - Morning following certification payrun. | DOA receives all reports and transmission data for final review and releases transmission files to the ODFI. |
| Day 2 - Afternoon following certification payrun. | ODFI confirms ACH transmission and warehouses the information until two (2) days before the effective payment date. |

# ACH Processing and Returns, Continued

**Returns**　　DOA receives NOCs and ACH Returns online from the ODFI.  Pertinent information is downloaded for immediate corrective action.  Standard change codes are assigned by the RDFI for NOC or ACH Returns designating the reason the ACH transaction rejected.  Returns are categorized as follows:

| Code | Description |
|---|---|
| C0 | Partial rejection – these transactions can be, and usually are, manually posted by the RDFI with a possibility of a one-day delay in posting to the employee's account. |
| R0 | Total rejection – these transactions are returned within 72 hours to DOA. |

**Corrective Action**　　Descriptions of selected standard reject codes and the actions taken by DOA to correct these errors follows:

| Reject code | Description | Action Taken by DOA |
|---|---|---|
| C01 | Incorrect RDFI Routing Number Check Digit | Replace the last digit of the routing number on the applicable bank information line on H0BB1 (i.e., Bank One, Two or Three). |
| C02 | Incorrect Routing Number | Replace the 9-digit routing number with the information provided on the NOC. |
| C04 | Incorrect Individual Name | Call agency for assistance.  Typically occurs when employees get married and the name longer matches. |
| C05 | Incorrect Transaction Code | Change deduction number set-up from checking to savings or vice versa. |
| C06 | Incorrect account number | Replace the corresponding account with the information provided on the NOC. |
| R01 | Insufficient Funds | Notify agency that agency charges will be made accordingly.  Pursuant to late reversals. |
| R02 | Closed accounts | Call agency to request disposition, rewire to another account or void. |
| R03 | No account, unable to locate account | Call agency and wire finds to agency petty cash fund so agency can prepare a check for employee. |
| R04 | Invalid account # | Pursuant to successful ACH Returns. |
| R06 | Returned per ODFI request | DOA processes voids from reversals. |

# CIPPS Direct Deposit Set-up

**Direct Deposit Deductions**

Six direct deposit deductions are available for use in CIPPS as shown below:

| Deduction | Account Type | Allocation | Trans Code per Report 26 |
|---|---|---|---|
| 060 | DD Savings 1 | Fixed amount | 32 |
| 068 | DD Savings 2 | Fixed amount | 32 |
| 070 | DD Savings | Net | 32 |
| 059 | DD Checking 1 | Fixed amount | 22 |
| 067 | DD Checking 2 | Fixed amount | 22 |
| 069 | DD Checking | Net | 22 |

**Employee Banking Information, H0BB1**

After receiving the direct deposit enrollment form and verifying the banking information, agencies must enter the employee's banking information on H0BB1 and the payroll deduction on H0ZDC.  Access the employee's H0BB1 screen using routine CIPPS command line navigation.



***Company***
***Employee Number***
***Name***

Display when employee's screen is accessed from the Command line.

# CIPPS Direct Deposit Set-up, Continued

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**H0BB1, continued**

| | |
|---|---|
| ***Bank*** | **Bank Routing Number –** Each employee can use up to ten (10) different banks in these 9-digit fields.  Routing numbers are usually the first group of numbers at the bottom of the check.  See detailed definition in the bank routing number section and H0ZDC Utility field guidelines for linking requirements. |
| ***ACCOUNT*** | **Employee Bank Account Number –** Each employee can use up to 8 different bank account numbers in these 17-digit fields.  Account numbers are the second group of numbers at the bottom of the check and are unique to each employee.  Do not enter dashes/spaces.  Each bank account entered must be valid with the Bank designated on the same line.  See detailed definition in the bank routing number section and H0ZDC Utility field guidelines for linking requirements. |
| ***Prenote Date*** | Enter the last day of the current pay period applicable to the employee's pay frequency.  Enter this date upon initial set-up or whenever changes are made to the bank information.<br><br>**Note:**  This date will always change to the first pay certification date following data entry (for initial set-up or changes) to activate the pre-note counter.  See detailed description in the pre-note section. |

# CIPPS Direct Deposit Set-up, Continued

**Employee Deductions, H0ZDC**

After the bank and account information has been entered on H0BB1, employee direct deposit payroll deductions must be established on H0ZDC. Even if the banking information on the H0BB1 is entered, the direct deposit will not be successful unless the deduction is set-up on H0ZDC.  Access the employee's H0ZDC screen using routine CIPPS Command line navigation.



*Company*
*Employee Number*
*Name*

Displays when employee's screen is accessed from the Command line.

*No*

Enter the applicable deduction number.

| Deduction | Account Type | Allocation |
|---|---|---|
| 060 | DD Savings 1 | Fixed amount |
| 068 | DD Savings 2 | Fixed amount |
| 070 | DD Savings | Net |
| 059 | DD Checking 1 | Fixed amount |
| 067 | DD Checking 2 | Fixed amount |
| 069 | DD Checking | Net |

Note:  Only deductions 069 and 070 are permissible for direct deposit **net** pay.

# CIPPS Direct Deposit Set-up, Continued

**H0ZDC, continued**

*Name*

This field is displayed by the system when the screen is complete and the Enter key is pressed.

*Amt/Pct*

**Amount/Percent** – Enter the dollar amount (to two decimal places) for fixed, and 100% (to five decimal places – entered as 1.00000) for net direct deposit deductions.

*Goal*

Field not used.

*Utility*

If a percentage (net) direct deposit, enter a value of two (2) in the first position of the utility field.  Then enter the applicable values in the 9th and 10th positions of the Utility field to reference the bank set established on the H0BB1 screen.  Do not enter values in any other positions.  The system will automatically populate the last position with the pre-note indicator.

*CALC*
*GN*

Do not use.

*FR*

**Deduction Frequency -** Enter the value indicating which payment(s) within each month the direct deposit should process.

| Value | Use for… | Direct deposit processed for… |
|---|---|---|
| 09 | Fixed or Net | All payments. |
| 01 | Only Fixed | First payment within the calendar month. |
| 02 | | Second payment within the calendar month. |

*PRTY*

Do not enter information.

*START DATE*
*(OPTIONAL)*

Enter the beginning date for the deduction.  Enter as MM/DD/YYYY.  The deduction will begin during the first payroll period when the date is less than the CTL period end date.

*END DATE*
*(OPTIONAL)*

Enter the cut-off date for this deduction.  Enter as MM/DD/YYYY.  The deduction will end during the payroll period when the date is less than the CTL period begin date.

*DED MTD*
*DED YTD*

Do not enter.  Automatically updates each time the deduction is taken.

# CIPPS Direct Deposit Reports

**Reports**    Agencies must verify the following reports after the initial set-up of the direct deposit account(s).

| Report | Description |
|---|---|
| Report 21, Deduction Register | *Deductions 059, 060, 067, 068, 069, 070 will show active (live) direct deposits.* Pre-notes are not shown. |
| Report 26, Direct Deposit Transmission Report | Hard copy of the online transmission file sent to the ODFI. Includes live and pre-notification accounts. Lists the employee name and social security number, banking information, type of transaction and trace number. |

# Exception Processing

**Stop Payments**    Direct deposit overpayments caused by agency error, unanticipated leave without pay, or employees changing accounts after payroll certification, may need to be recalled or reclaimed using stop payment procedures. Two stop payment methods are available to reclaim direct deposit transactions as described below. Use the method that applies to the timeframe in which the error is discovered:

| Stage | Method | Description |
|---|---|---|
| From the night of payroll certification up until 3 days before the pay date. | Deletion | Used when the ODFI still has the transmission file warehoused and can perform maintenance to delete the transaction in error. The ODFI can guarantee that the direct deposit transaction will not be sent to the Federal Reserve Bank.<br><br>**Note:** Call the DOA Direct Deposit Coordinator the day after calling for a stop payment to verify that a deletion was performed by the ODFI. |
| From 2 days before the pay date up until 5 days after the pay date. | Reversal | Used when all files have been released to the Federal Reserve for further distribution to the RDFI. At this point the ODFI cannot guarantee the return of funds. Reversals are sent via ACH. When processed prior to payday, they cannot be posted until the evening of payday. When processed within the 5 day period following payday, they are posted immediately. |

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# Exception Processing, Continued

**Stop Payment Documentation**

Paperless earnings notices, through Payline, have reduced the availability of direct deposit earnings notice for inclusion in the stop payment documentation process. Therefore, DOA has streamlined the requirements for direct deposit stop payment. A Direct Deposit Stop Payment form can be found on the DOA website at http://www.doa.virginia.gov/procedures/payroll/forms/forms.htm .

To request a stop payment, simply complete the Direct Deposit Stop Payment form, and fax it to the Payroll Production Direct Deposit Coordinator @ 804-225-3499 within DOA. DOA then faxes the information to the bank.

Be sure the form includes:

- Employee Name
- Company Number
- Employee Number
- Direct Deposit Number (from Report 10)
- Check Date
- Pay Period End Date
- Reason Code
- Amounts by Direct Deposit Deduction
- Authorizing Signature (must be on Form DA-04-121)
- Desired YQ Indicator

# Exception Processing, Continued

**Understanding Stop Payments for Direct Deposit**

The timing of a request for stop payment of a direct deposit affects the ability to intercept the funds prior to distribution. To aid in your understanding of how timing affects the stop payment, some general guidelines are provided.

- Requests received by DOA by 3:30 PM will be processed the same day. Those received after 3:30 will not be processed until the following workday.
- Requests received the day after certification and up to three (3) State business days prior to the check-date (deposit date) will be **deleted** from the transmission. That is, the initial transaction is never transferred to the Receiving Financial Institution (RDFI). (Ex: Requests must be received prior to 3:30 P.M. on Tuesday, January 28, 2003, for deposits dated Friday, January 31, 2003, to be *deleted*.)

- Requests received after that time and up to five (5) business days after the date of deposit will be processed as a **reversal**. (Ex: Requests received after 3:30 P.M. on Tuesday, January 28, 2004 for deposits dated Friday, January 31, 2004 will be *reversed*, not *deleted*.) The initial transaction cannot be deleted; therefore, a reversing transaction must be created and remitted to the RDFI. As the funds related to the initial transaction may no longer be available in the employee's account, it is possible that the reversing transaction is rejected. For that reason, *DOA cannot guarantee the success of the reversal.* Once the reversal has been accepted, DOA will process the corresponding *void* transaction in CIPPS. A void is not complete until it is seen on the Report 10.

In order to ensure the timely return of the direct deposit credits, please submit your stop payment requests as soon as possible. As an alternative to voiding a direct deposit, direct deposits can be routed to another account, such as another account for the affected employee or an agency petty cash account. However direct deposit transactions *cannot* be converted to a negotiable instrument (i.e., check).

# Internal Control

**Internal Control**

Agencies must ensure direct deposit payments are made to the correct employee bank account.

# Records Retention

**Time Period**

Retain direct deposit enrollment forms until the employee changes accounts and/or 6 years after separation from employment. Retain stop payment requests to DOA and ODFI banks for five and six years respectively.

# Contacts

**DOA Contacts**

Direct Deposit Coordinators
Voice: (804) 371-4883; (804) 786-7549; (804) 371-8385
E-mail: Payroll@doa.virginia.gov

Payroll Business Analyst/Trainer
Voice: (804) 225-3120 or (804) 225-3079
E-mail: Payroll@doa.virginia.gov

# Subject Cross References

**References**

NACHA National Automated Clearing House Association- www.nacha.org
ABA American Bankers Association- www.aba.com
DD/DP Direct Deposit/Direct Payment- www.directdeposit.org